

Before the  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Periodic Reporting )  
(UPS Proposals One, Two and Three) )

Docket No. RM2016-2

PUBLIC REPRESENTATIVE NOTICE OF ERRATA  
TO PUBLIC REPRESENTATIVE REPLY COMMENTS

(March 29, 2016)

This Notice of Errata to the Public Representative Reply Comments, filed March 25, 2016, is to insert a few words inadvertently left out in the discussion of the current methodology for cost attribution. The corrections do not alter the substance of the Reply Comments.

These corrections to the Public Representative Reply Comments are inserted in page 4, Revised 3/29/2016, appended to this Notice.

Respectfully submitted,

Kenneth E. Richardson  
Public Representative

901 New York Avenue, NW, Suite 200  
Washington, DC 20268-0001  
202-789-6859  
Email: [richardsonke@prc.gov](mailto:richardsonke@prc.gov)

adjustment downward, can be taken as long-run curves.” ACMA Comments at 20.<sup>3</sup> ACMA appears to be arguing that marginal costs are actually constant at all volume levels. If so, then marginal costs at volume levels prior to total volume do not vary, and inframarginal costs would not exist. This view is at odds with the current methodology, which is based on the notion that postal cost functions exhibit increasing returns to scale.<sup>4</sup> The current methodology assumes that the cost functions for components do exhibit increasing returns to scale, and the unit marginal cost evaluated at total volume is constant at all volumes, even though unit marginal costs are not constant at volumes prior to total volume. This assumption lays the basis for the concept of inframarginal costs, *i.e.* marginal costs which vary with volumes prior to total volume.

The Public Representative believes ACMA’s claim lacks merit. Its claim is not consistent with currently accepted methodology which presumes declining long-run marginal costs (or the presence of scale economies). ACMA claims marginal costs are constant because the postal service’s costs functions do not exhibit increasing returns to scale.<sup>5</sup> ACMA’s claim also contradicts recent papers which recognize that the marginal costs of volumes evaluated at volume levels prior to total volume vary with volume, and are referred to as inframarginal costs.<sup>6</sup>

---

<sup>3</sup> ACMA devotes 16 pages of Comments to defending this assertion. See Docket No. RM2016-2, Initial Comments of the American Catalog Mailers Association (ACMA Comments), January 27, 2016 at 6-10, 15-25.

<sup>4</sup> See, *e.g.*, Bradley Statement at 3, 14. Even mail processing, which has a cost elasticity greater than 90 percent, exhibits some economies of scale.

<sup>5</sup> “It turns out that the Postal Service tends to have the characteristic that scale changes do not occur....” ACMA Comments at 24.

<sup>6</sup> McBride states, “In a 1993 paper by Bradley, Colvin, and Smith... inframarginal cost ...is the amount of variable cost that has been incurred in producing all the previous units of output up to the current level of production.” See McBride at 1. Bradley states, “However, the incremental cost calculation requires computing costs along the component’s (cost driver) marginal cost function, which is nonlinear....In this circumstance, it does matter where a product’s part of the driver falls under the marginal cost curve because the associated marginal cost is different at different places along the curve.” Bradley Statement at 32. Finally, the Postal Service’s Office of the Inspector General stated, “Therefore, the total cost of providing all letters includes not only the volume variable cost but the cost of all those letters delivered at a higher cost. Economists have given these costs the ungainly name ‘infra-marginal.’” USPS OIG, A Primer on Postal Costing Issues (OIG) at 19.